UMTSHEZI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

General information

Members of the Council

Cllr Dlamini BD	**Mayor**
Cllr Nunes CJS	**Speaker**
Cllr Chetty U	Member
Cllr Dladla BS	Member
Cllr Dlamini BA	Member
Cllr Dubazane TC	Member
Cllr Duma TG	Member
Cllr Gericke RP	Member
Cllr Lite E	Member
Cllr Magubane SD	Member
Cllr Majola EM	Member
Cllr Mchunu ME	Member
Cllr Mlambo SM	Member
Cllr Mlele SC	Member
Cllr Sulieman B	Member
Cllr Vilakazi KA	Member
Cllr Zwane Z	Member

Municipal Manager (Acting)

Dladla EH

Chief Financial Officer

Zulu MJ

Grading of Local Authority

Grade 3

Auditors

Auditor General of South Africa (KwaZulu-Natal)

Bankers

Absa
First National Bank
Nedbank
Standard Bank

Attorneys

Botha & Oliver Inc.
Carlos Miranda Attorneys
Lalparsad Inc.
Matthew Francis Inc.
Tenza Attorney

General information (continued)

Registered Office:	Civic Building Victoria Road Estcourt 3310
Physical address:	Civic Building Victoria Road Estcourt 3310
Postal address:	**PO Box 15** Estcourt 3310

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements.

The annual financial statements, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016.

Accounting Officer (Acting): EH. Dladla

Estcourt

2016/08/31

Umtshezi Local Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2016

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Umtshezi Local Municipality
Satement of Financial Position
as at 30 June 2016

	Note	2016	2015
		R	R
			Restated
ASSETS			
Current assets		**133 159 827**	**117 033 878**
Inventories	2	2 227 259	2 547 219
Cash and cash equivalents	3	11 885 746	8 122 498
Trade and other receivables from exchange transactions	4	41 865 021	42 714 010
Trade and other receivables from non-exchange transactions	5	72 687 266	57 562 964
Other current financial assets	6	-	473 433
VAT receivable	15	4 494 535	5 613 754
Non-current assets		**661 515 748**	**662 406 426**
Property, plant and equipment	7	652 177 327	652 945 958
Intangible assets	8	92 251	214 298
Heritage assets	12	9 246 170	9 246 170
Total assets		**794 675 575**	**779 440 304**
LIABILITIES			
Current liabilities		**80 308 958**	**78 096 331**
Trade and other payables from exchange transactions	13	32 659 294	45 225 733
Consumer deposits	14	3 352 391	3 078 663
Defined benefit plan obligations	43	-	736 365
Current provisions	16	24 156 030	21 934 247
Unspent conditional grants and receipts	17	15 684 424	2 450 470
Current portion of long-term borrowings	18	896 328	1 387 117
Current portion of finance lease liability	19	3 407 944	2 550 076
Other current financial liabilities	20	152 547	733 660
Non-current liabilities		**40 751 887**	**40 793 181**
Non-current borrowings	18	7 753 961	9 685 257
Non-current finance lease liability	19	7 459 926	8 991 289
Defined benefit plan obligations	43	25 538 000	22 116 635
Total liabilities		**121 060 845**	**118 889 512**
Net assets		**673 614 730**	**660 550 792**
NET ASSETS			
Housing Operating Account		1 095 260	1 095 260
Revaluation Reserve		1 001 407	1 001 407
Accumulated surplus		671 518 063	658 454 125
Total net assets		**673 614 730**	**660 550 792**

Umtshezi Local Municipality
Statement of Financial Performance
for the year ending 30 June 2016

	Note	2016 R	2015 R Restated
REVENUE			
Revenue from exchange transactions		**210 862 959**	**191 066 057**
Service charges	22	200 610 033	178 835 772
Rental of facilities and equipment	23	459 799	330 321
Interest earned - external investments	24	548 798	2 103 518
Interest earned - outstanding receivables	25	641 327	469 801
Licences and permits		5 645 921	5 691 779
Other income from exchange transactions	27	2 957 081	3 634 866
Revenue from non-exchange transactions		**165 726 882**	**176 689 126**
Property rates	21	75 539 072	72 164 904
Fines		1 052 400	1 283 300
Government grants and subsidies	26	89 135 410	103 240 922
Total revenue		**376 589 841**	**367 755 183**
EXPENSES			
Employee related costs	28	82 463 538	76 856 313
Remuneration of councillors	29	5 862 680	5 501 463
Bad debts		4 183 215	16 755 536
Depreciation and amortisation expense	30	40 764 073	47 673 181
Infrastructure assets written off		-	5 442 752
Repairs and maintenance		10 703 729	16 339 223
Finance costs	31	5 000 171	6 259 000
Bulk purchases	32	149 593 327	143 811 396
Contracted services	33	4 460 280	8 362 411
Grants and subsidies paid	34	8 997 501	6 921 404
General expenses	35	49 299 388	39 916 523
Total expenses		**361 327 903**	**373 839 201**
Gain / (loss) on sale of assets	36	-	(97 586)
Actuarial gain / (loss)	43	(2 198 000)	(944 000)
Inventories: (Write-down) / Reversal of write-down to net	2	-	-
Surplus / (deficit) for the period before tax		**13 063 938**	**(7 125 604)**
Taxation		-	-
Surplus / (deficit) for the period		**13 063 938**	**(7 125 604)**

Umtshezi Local Municipality
Statement of Changes in Net Assets
as at 30 June 2016

		Note	Housing Development Fund Reserve	Revaluation Reserve	Total: Reserves	Accumulated Surplus/(Deficit)	Total: Net Assets
			R	R	R	R	R
Balance at 30 June	**2014**		**1 095 260**		**1 095 260**	**666 808 346**	667 903 606
Changes in accounting policy					-		-
Correction of prior period error		39			-		-
Restated balance			**1 095 260**	-	**1 095 260**	**664 993 292**	666 088 552
Surplus / (deficit) on revaluation of property of property, plant and equipment				1 001 407	**1 001 407**		1 001 407
Other items					-		-
Other items					-		-
Net gains and losses not recognised in the statement of financial performance					-		-
Transfers to / from accumulated surplus/(deficit)					-		-
Surplus / (deficit) for the period						(7 125 604)	(7 125 604)
Balance at 30 June	**2015**		1 095 260	1 001 407	2 096 667	657 867 688	659 964 355
Correction of prior period error					-	586 437	586 437
Restated balance			1 095 260	1 001 407	2 096 667	658 454 126	660 550 792
Surplus / (deficit) on revaluation of property of property, plant and equipment					-		-
Other items					-		-
Other items					-		-
Net gains and losses not recognised in the statement of financial performance					-		-
Transfers to / from accumulated surplus/(deficit)					-		-
Surplus / (deficit) for the period						13 063 938	13 063 938
Balance at 30 June	**2016**		1 095 260	1 001 407	2 096 667	671 518 063	673 614 730

Umtshezi Local Municipality
Cash Flow Statements
as at 30 June 2016

	Note	2016 R	2015 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		**361 735 561**	**322 908 216**
Sales of goods and services		271 410 026	240 486 877
Grants		89 135 410	79 848 046
Interest received		1 190 125	2 573 293
Payments		**317 058 326**	**272 534 397**
Employee costs		88 326 218	79 689 233
Suppliers		223 731 937	189 960 442
Interest paid		5 000 171	2 884 722
Net cash flows from operating activities	37	**44 677 235**	**50 373 819**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets (PPE)		(39 873 395)	(77 716 733)
Proceeds from sale of fixed assets		-	-
Proceeds from sale of investments		-	-
Purchase of intangibles		-	-
Decrease/(Increase) in Loans and receivables		-	-
Movement		-	-
Net cash flows from investing activities		**(39 873 395)**	**(77 716 733)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		-	2 602 696
Repayment of borrowings		(1 931 296)	-
Decrease/(Increase) in loans and receivables			37 884
Proceeds from finance lease liability		-	-
Repayment of finance lease liability		(673 495)	(6 172 532)
Net cash flows from financing activities		**(2 604 791)**	**(3 531 952)**
Net increase / (decrease) in cash and cash equivalents		2 199 049	(30 874 866)
Net cash and cash equivalents at beginning of period		8 122 498	38 997 364
Net cash and cash equivalents at end of period	38	**10 321 547**	**8 122 498**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives, issued by the Accounting Standards Board in accordance with Section 122(3) of the Companies Act, 71 of 2008.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures have been rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable (service) amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.
It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as inflation and interest.

Value in use of non-cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 21 Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Post-employment benefits

The present value of the post-employment obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 13.

Effective interest rate

The municipality uses the government bond rate to discount future cash flows.

Allowance for impairment

For receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost), unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, it's cost is measured at the carrying amount of the asset given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on a straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Buildings	
• Property and permanent fixtures	4-53 years
Finance leased assets	5 years
Motor vehicles	7 years
Office equipment and furniture	7 years
Plant and machinery	10 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate; unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit; unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. Such a difference is recognised in surplus or deficit when the item is derecognised.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The related asset is measured using the cost model:

a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis to their estimated residual values as follows:

Item	Useful life
Computer software	5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the intangible asset. Such a difference is recognised in surplus or deficit when the intangible asset is derecognised.

1.6 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset when it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value can be measured reliably.

Where the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 10 Heritage assets.

Initial measurement

Heritage assets are initially recognised cost.

Where a heritage asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Subsequent measurement

Subsequent to initial measurement heritage assets are carried at cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that a heritage asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

Heritage assets are derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such a difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability, other than those subsequently measures at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures all other financial assets and financial liabilities initially at fair value.

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions
  (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility in the case of a financial asset.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:

- derecognises the asset; and
- recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and building elements, the municipality assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis over the lease term.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for a nominal cost, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance
with Section 15(2) of the VAT Act (Act No. 89 of 1991).

1.11 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life. When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash generating unit are affected by internal transfer pricing; the municipality uses management's best estimate of future price(s)
that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as
impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that noncash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.12 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.
The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality will not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss.
The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.13 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of the municipality after deducting all of its liabilities.

1.14 Statutory receivables

Statutory receivables are receivables that:

- arise from legislation, supporting regulations, or similar means; and
- require settlement by another entity in cash or another financial asset.

Statutory receivables constitute revenue receivable from property rates, fines, penalties, grants and fees charged in terms of legislation.

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using GRAP 9;
- if the transaction is a non-exchange transaction, using GRAP 23;
- if the transaction is not within the scope of either GRAP 9 or GRAP 23, the receivable is recognised when:

- the definition of an asset is met; and
- it its probable that future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

The municipality measures a statutory receivable initially at its transaction amount.

The municipality measures all statutory receivables after initial recognition using the cost method.

Under the cost method the amount recognised initially is only changed subsequently to reflect any:

- interest or other charges that may have accrued on the receivable;
- impairment loss; and
- amounts derecognised.

The municipality assesses at the end of each reporting period whether there is objective evidence that a statutory receivable or group of statutory receivables is impaired.

For amounts due the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default payments are all considered indicators of impairment.

If there is objective evidence that an impairment loss on statutory receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the estimated future cash flows - discounted if the effect of discounting is material - using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The reversal does not result in a carrying amount of the statutory receivable that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where statutory receivables are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such receivables are written

off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.
The municipality derecognises a statutory receivable when:

- the rights to the cash flows from the statutory receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable;
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:

- derecognises the receivable;
- recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are considered for inclusion within the scope of GRAP 104 or another standard of GRAP. Any difference between the consideration received and amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

1.15 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
  short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within 12 months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within 12 months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cell phones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.
Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality accounts for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within 12 months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability, the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.
Interest cost is the increase during a period in the present value of a defined benefit obligation which arises, because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability, the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan
itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another
Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service

or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.
In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money.
The currency and term of the financial instrument selected to reflect the time value of money are consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities.

Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long-term service awards is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another

Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately; and
- the effect of any curtailments or settlements.

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

1.16 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating expenditure.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

The related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability
  exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit;
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and accounts for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on municipalities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards; and
- fines or other penalties that are imposed for breaches of the legislation.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time.

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy, but does not yet have a present obligation to pay that levy.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of municipal assets yielding interest, royalties and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential are required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes (Property rates for municipalities)

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Collection charges and penalties

Collection charges and penalty interest are recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with the relevant legal requirements (if applicable).

Fines
Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by debtors.

Where the municipality collects fines in the capacity of an agent, the fines will not be revenue of the municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue, is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exists in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Service concession arrangements: Grantor

A service concession arrangement is a contractual arrangement between a grantor (the municipality) and an operator in which:

- the operator uses the service concession asset to provide a mandated function on behalf of the municipality for aspecified period of time; and
- the operator is compensated for its services over the period of the service concession arrangement.

A service concession asset is an asset used to provide a mandated function in a service concession arrangement that:

- is provided by the operator which:
  - the operator constructs, develops, or acquires from a third party; or
  - is an existing asset of the operator.
- is provided by the grantor (municipality) which:
  - is an existing asset of the municipality; or
  - is an upgrade to an existing asset of the municipality.

An asset is provided by the operator, or an upgrade to an existing asset of the municipality is recognised as a service concession asset if:

- the municipality controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price;
- the municipality controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the asset at the end of the arrangement.

The municipality measures initially a service concession asset at its fair value.

The municipality recognises a liability where a service concession asset is recognised.

The liability is initially recognised at the same amount as the service concession asset, adjusted by the amount for any consideration from the municipality to the operator, or from the operator to the municipality.

Where the municipality has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition or upgrade of a service concession asset, the liability is accounted for as a financial liability in accordance with GRAP 104.

The payments made to the operator are accounted for according to their substance as:

- a reduction in the liability recognised;
- a finance charge; and
- charges for services provided by the operator.

Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments are allocated by reference to the relative fair values of the service concession asset and the services. If not, the service component of payments is determine using valuation techniques.

Where the municipality does not have an unconditional obligation to pay cash or another financial asset to the operator, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the liability is accounted for as the unearned portion of revenue arising from the exchange of assets between the municipality and the grantor.

The liability is reduced and revenue recognised according to the substance of the service concession arrangement.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 44 for detail.

1.22 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes:

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act

(Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.
All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credit against accumulated surplus when retrospective adjustments are made.

1.26 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.27 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments, which are disclosed in note 41.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed if both the following criteria are met:

- contracts are non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.28 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving raise to the transfer occurred.

1.29 Budget information

The approved budget is prepared on the accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.30 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.31 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date);
  and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

	Note	2016 R	2015 R

2 INVENTORIES

	2016 R	2015 R
Opening balance	2 547 219	1 289 560
Additions	-	1 257 659
Issued (expensed)	319 960	-
Write-down / (Reversal of write-down) to Net Replacement Value (NRV) or Net Replacement Cost (NRC)	-	-
Closing balance of inventories	**2 227 259**	**2 547 219**
Consumable stores	2 227 259	2 547 219

None of the inventory transactions were pledged as security.

3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2016 R	2015 R
Cash on hand	10 238	8 738
Cash at bank	9 616 732	2 293 764
Call deposits	2 258 776	5 819 996
	11 885 746	8 122 498

The Municipality has the following bank accounts: -

Current Account (Primary Bank Account)

	2016 R	2015 R
FNB Public Sector Managed Account: 52200363994	4 347 523	3 594 086
Cash book balance at beginning of year	2 293 764	7 340 329
Cash book balance at end of year	9 616 732	2 293 764
Bank statement balance at beginning of year	3 594 086	7 957 943
Bank statement balance at end of year	4 347 523	3 594 086

Savings Account

	2016 R	2015 R
FNB - Account number: 62033811995	59 289	967 060
FNB 32-day Call Account - Housing Operating - Account number: 74407973409	-	2 249 082
FNB Money Market - INEP - Account number: 62347581060	708 137	39 015
FNB Money Market - MIG - Account number: 62281385130	10 445	342 505
FNB Money Market - NDPG - Account number: 62232266991	33 322	32 038
FNB Money Market - Small Town Rehabilitation - Account number: 62347582050	519 825	1 556 409
FNB MSIG - Account number: 62216024737	472 566	524 096
Standard Bank - Account number: 12528	-	12 528
FNB Fixed Deposit - Account number: 71021254116		36 246
FNB Fixed Deposit - Account number: 7106697123	14 000	14 000
FNB Land Sales - Account number: 62216019019	353 543	12 970
ABSA Call Account - Account number: 9106646490	-	983
Nedbank Fixed Deposit - Account number: 19542952	32 234	-
Cash book balance at beginning of year	5 819 996	
Cash book balance at end of year	2 258 776	5 819 996
Bank statement balance at beginning of year	-	
Bank statement balance at end of year	2 203 361	
Cash on hand	10 238	8 738
Total cash and cash equivalents	**11 885 746**	**8 122 498**

	Note	2016	2015
		R	R
4 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS	**Gross Balances**	**Provision for Doubtful Debts**	**Net Balance**
Trade receivables	R	R	R
as at 30 June 2016			
Service debtors			
Electricity	12 561 386	(1 201 412)	11 359 974
Other	29 605 901	-	29 605 901
Sundry Debtors	1 074 302	(888 528)	185 774
Refuse	6 957 096	(6 243 725)	713 371
Total	50 198 686	(8 333 665)	41 865 021
Other receivables	-	-	-
Other receivables	-	-	-
Total Trade and other receivables	50 198 686	(8 333 665)	41 865 021
as at 30 June 2015			
Service debtors			
Electricity	13 110 774	(1 710 452)	11 400 322
Other	29 605 901	-	29 605 901
Sundry Debtors	3 655 192	(2 730 522)	924 670
Refuse	9 968 372	(9 185 256)	783 116
Total	56 340 240	(13 626 230)	42 714 010
Other receivables	-	-	-
Other receivables	-	-	-
Total Trade and other receivables	56 340 240	(13 626 230)	42 714 010

	2016	2015
Electricity: Ageing		
Current (0 – 30 days)	10 602 466	10 180 591
31 - 60 Days	609 233	410 253
61 - 90 Days	148 276	809 478
> 90 Days	1 201 412	-
Total	12 561 386	11 400 322
Refuse: Ageing		
Current (0 – 30 days)	296 317	392 768
31 - 60 Days	218 085	264 956
61 - 90 Days	198 970	125 392
> 90 Days	6 243 725	-
Total	6 957 096	783 116
Sundry Debtors: Ageing		
Current (0 – 30 days)	116 981	17 484
31 - 60 Days	25 455	107 908
61 - 90 Days	43 338	799 278
> 90 Days	888 528	
Total	1 074 302	924 670

Summary of Debtors by Customer Classification	**Consumers**	**Industrial / Commercial**	**National and Provincial Government**
	R	R	R
as at 30 June 2016			
Current (0 – 30 days)	1 900 884	10 313 882	2 285 486
31 - 60 Days	1 042 834	522 849	1 915 557
61 - 90 Days	806 652	422 144	1 680 317
> 90 Days	26 956 172	6 988 775	47 631 567
Total debtors by customer classification	30 706 542	18 247 650	53 512 927
as at 30 June 2015			
Current (0 – 30 days)	1 471 073	12 790 075	2 659 045

	Note	2016 R	2015 R
31 - 60 Days	764 847	691 326	1 337 577
61 - 90 Days	893 862	439 544	1 249 766
> 90 Days	40 545 338	25 040 523	28 608 451
Sub-total	**43 675 120**	**38 961 468**	**33 854 839**
Less: Provision for doubtful debts			
Total debtors by customer classification	**43 675 120**	**38 961 468**	**33 854 839**

4 Reconciliation of the doubtful debt provision

	2016 R	2015 R
Balance at beginning of the year	(13 626 230)	(12 977 360)
Contributions to provision	(8 333 665)	(13 626 230)
Doubtful debts written off against provision	-	-
Reversal of provision	13 626 230	12 977 360
Balance at end of year	**(8 333 665)**	**(13 626 230)**

5 TRADE AND OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2016 R	2015 R
Trade receivables - Property Rates	71 406 948	56 357 284
Fines	1 280 318	1 205 680
Total	**72 687 266**	**57 562 964**

Trade receivables - Property Rates

as at 30 June 2016	Gross Balances R	Provision for Doubtful Debts R	Net Balance R
Property Rates	71 406 948	-	71 406 948
Fines	2 258 080	(977 762)	1 280 318
	73 665 028	(977 762)	72 687 266

as at 30 June 2015	Gross Balances R	Provision for Doubtful Debts R	Net Balance R
Property Rates	56 357 284	-	56 357 284
Fines	1 205 680	-	1 205 680
	57 562 964	-	**57 562 964**

6 OTHER FINANCIAL ASSETS

6,1 OTHER CURRENT FINANCIAL ASSETS

	2016 R	2015 R
Loans & Receivables - Land sale	-	473 433

Umtshezi Local Municipality
NOTES TO THE FINANANCIAL STATEMENTS
for the year ended 30 June 2016

7 PROPERTY, PLANT AND EQUIPMENT

7,1 Reconciliation of Carrying Value

		Land & Buildings	Infrastructure	Work in progress	Other Assets	Finance lease assets	Total
	R	R	R	R	R	R	R
as at 1 July 2015	-	289 653 006	282 083 749	57 564 321	13 355 889	10 288 992	652 845 958
Cost/Revaluation	-	392 703 717	431 610 344	57 534 321	34 595 309	15 717 241	932 160 932
Correction of error (note 40)		647 200	(647 197)	30 000	411 692	144 741	586 437
Accumulated depreciation and Impairment losses	-	(103 697 911)	(148 879 398)	-	(21 651 112)	(5 572 990)	(279 801 411)
Acquisitions	-	980 035	-	-	1 720 997	-	2 701 032
Capital under Construction	-	-	-	37 172 363	-	-	37 172 363
Depreciation	-	(14 693 793)	(20 671 407)	-	(3 653 323)	(1 623 503)	(40 642 026)
Carrying value of disposals	-	-	-	-	-	-	-
Cost/Revaluation	-	-	-	-	-	-	-
Accumulated depreciation and impairment losses	-	-	-	-	-	-	-
Impairment loss/Reversal of impairment loss		-	-	-	-	-	-
Transfers	-	9 016 436	15 272 778	(24 289 214)	-	-	(0)
Other movements*	-						-
as at 30 June 2016	-	284 955 684	276 685 120	70 447 470	11 423 563	8 665 489	652 177 327
Cost/Revaluation	-	403 347 388	446 235 925	70 447 470	36 727 998	15 861 982	972 620 764
Accumulated depreciation and impairment losses	-	(118 391 704)	(169 550 805)	-	(25 304 435)	(7 196 493)	(320 443 437)

7,2 Reconciliation of Carrying Value

		Land & Buildings	Infrastructure	Work in progress	Other Assets	Finance lease assets	Total
	R	R	R	R	R	R	R
as at 1 July 2014	-	301 721 469	288 825 094	28 372 717	14 459 058	12 149 233	645 527 571
Cost/Revaluation	-	390 520 976	411 925 725	28 372 717	32 851 135	15 717 241	879 387 794
Correction of error (note 40)							-
Accumulated depreciation and Impairment losses	-	(88 799 507)	(123 100 631)	-	(18 392 077)	(3 568 008)	(233 860 223)
Acquisitions	-	533 408	1 290 394	-	3 804 926	-	5 628 728
Capital under Construction	-	-	-	56 462 291	-	-	56 462 291
Depreciation	-	(14 911 562)	(25 825 075)	-	(4 707 880)	(2 004 982)	(47 449 499)
Carrying value of disposals	-	10 175	94 857	-	611 907	-	716 939
Cost/Revaluation	-	23 333	141 165	-	2 060 752	-	2 225 250
Accumulated depreciation and impairment losses	-	(13 158)	(46 308)	-	(1 448 845)	-	(1 508 311)
Impairment loss/Reversal of impairment loss	-	-	(5 442 752)	-	-	-	(5 442 752)
Transfers	-	3 322 545	23 978 142	(27 300 667)	-	-	-
*Other movements	-	(1 649 879)	-	-	-	-	(1 649 879)
as at 30 June 2015	-	289 005 806	282 730 946	57 534 321	12 944 197	10 144 251	652 359 521
Cost/Revaluation	-	392 703 717	431 610 344	57 534 321	34 595 309	15 717 241	932 160 932
Accumulated depreciation and impairment losses	-	(103 697 911)	(148 879 398)	-	(21 651 112)	(5 572 990)	(279 801 411)

Note

8 INTANGIBLE ASSETS

8 Reconciliation of carrying value

	Computer Software R	Other* R	Total R
as at 1 July 2015	214 298	-	214 298
Cost	1 154 253	-	1 154 253
Correction of error			-
Change in accounting policy			-
Accumulated amortisation and impairment losses	(939 955)	-	(939 955)
Acquisitions	-	-	-
Amortisation	(122 047)	-	(122 047)
Carrying value of disposals	-	-	-
Cost	-	-	-
Accumulated amortisation	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-
Transfers	-	-	-
Other movements	-	-	-
as at 30 June 2016	**92 251**	-	**92 251**
Cost	1 154 253	-	1 154 253
Accumulated amortisation and impairment losses	(1 062 002)	-	(1 062 002)

*Note: "Other" consists of........, none of which are considered to be individually significant or material.

8 Reconciliation of carrying value

	Computer Software R	Other* R	Total R
as at 1 July 2014	**437 980**	-	**437 980**
Cost	1 154 253		1 154 253
Correction of error			-
Change in accounting policy			-
Accumulated amortisation and impairment losses	(716 273)		(716 273)
Acquisitions	-	-	-
Amortisation	(223 682)	-	(223 682)
Carrying value of disposals	-	-	-
Cost	-	-	-
Accumulated amortisation	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-
Transfers	-	-	-
Other movements	-	-	-
as at 30 June 2015	**214 298**	-	**214 298**
Cost	1 154 253	-	1 154 253
Accumulated amortisation and impairment losses	(939 955)	-	(939 955)

Umtshezi Local Municipality
NOTES TO THE FINANANCIAL STATEMENTS
as at 30 June 2016

12 HERITAGE ASSETS

12 Reconciliation of carrying value	**Historical Buildings R**	**Paintings and Artefacts R**	**Other* R**	**Total R**
as at 1 July 2015	**9 246 170**	**-**	**-**	**9 246 170**
Cost/Revaluation	9 246 170	-	-	9 246 170
Correction of error (note 48)				-
Change in accounting policy (note 47)				-
Accumulated impairment losses	-	-	-	-
Acquisitions	-	-	-	-
Carrying value of disposals	-	-	-	-
Cost/Revaluation	-	-	-	-
Accumulated impairment losses	-	-	-	-
Revaluation	-	-	-	-
Transfers	-	-	-	
Under Construction	-	-	-	-
Other movements	-	-	-	-
as at 30 June 2016	**9 246 170**	**-**	**-**	**9 246 170**
Cost/Revaluation	9 246 170	-	-	9 246 170
Accumulated impairment losses	-	-	-	-

12 Reconciliation of carrying value	**Historical Buildings R**	**Paintings and Artefacts R**	**Other* R**	**Total R**
as at 1 July 2014	**9 246 170**	**-**	**-**	**9 246 170**
Cost/Revaluation	9 246 170			9 246 170
Correction of error (note 48)				-
Change in accounting policy (note 47)				-
Accumulated impairment losses	-	-	-	-
Acquisitions	-	-	-	-
Carrying value of disposals	-	-	-	-
Cost/Revaluation	-	-	-	-
Accumulated impairment losses	-	-	-	-
Revaluation	-	-	-	-
Transfers	-	-	-	-
Under Construction	-	-	-	
Other movements	-	-	-	-
as at 30 June 2015	**9 246 170**	**-**	**-**	**9 246 170**
Cost/Revaluation	9 246 170	-	-	9 246 170
Accumulated impairment losses	-	-	-	-

12 Details of valuation

The effective date of the revaluations was 30 June 2015. Revaluations were performed by an independent valuer, XXX, of One Pangea Financial. One Pangea Financial are not connected to the entity.
Land and buildings are re-valued independently every 5 years.

The valuation was performed using the discounted cash flow approach (other, describe, e.g. recent arms length transaction), and the following assumptions were used:
Discount rate
Other
Other
These assumptions are based on current market conditions.

Revaluation Reserve	
as at 1 July 2015	-
+/-Revaluation/Devaluation	1 001 407
Other movements	-
as at 30 June 2015	1 001 407

Disclose any restrictions on the distribution of the balance to owners of net assets

	Note	2016 R	2015 R
13 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS			
Trade creditors		29 454 573	35 919 725
Retentions		3 171 653	-
Staff leave accrual		-	9 272 940
Other creditors		33 068	33 068
Total		32 659 294	45 225 733

The fair value of trade and other payables approximates their carrying amounts.

14 CONSUMER DEPOSITS

Electricity and Water	3 352 391	3 078 663
Total consumer deposits	3 352 391	3 078 663

15 VAT RECEIVABLE

VAT receivable	4 494 535	5 613 754
Vat Receivable / (Payable)	**4 494 535**	**5 613 754**

The municipality accounts for VAT on a payments basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

16 PROVISIONS

16,1 CURRENT PROVISIONS

Provision for landfill site	24 156 030	21 934 247
Total	24 156 030	21 934 247

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at 2%, over an average period of 13 years.
Insert any assumptions made concerning future events.
The long-service award is payable after every years of continuous service. The provision is an estimate of the long-service based on historical staff turnover.
Insert any assumptions made concerning future events.

The movement in the non-current provision is reconciled as follows: -

Provision for rehabilitation of landfill sites:		
Balance at the beginning of year	21 311 956	23 469 769
Contributions to provision	2 410 482	(2 272 170)
Expenditure incurred	-	-
Increase in provision due to discounting	433 592	114 357
Transfer to current provisions	-	-
Balance at the end of year	24 156 030	21 311 956

17 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Expanded Public Works Programme Grant (EPWP)	109 550	-
Financial Management Grant (FMG)	-	-
Municipal Infrastrusture Grant (MIG)	-	-
Municipal Systems Improvement Grant (MSIG)	-	-
Neighbourhood Development Partnership Grant (NDPG)	-	-
Other Government Grants And Subsidies	15 574 874	2 450 470
Total Unspent Conditional Grants and Receipts	15 684 424	2 450 470
Non-current unspent conditional grants and receipts	-	-
Current portion of unspent conditional grants and receipts	**15 684 424**	**2 450 470**

17,1 Expanded Public Works Programme Grant (EPWP)

Balance unspent at beginning of year	-	-
Current year receipts	1 050 000	1 000 000
Conditions met - transferred to revenue	(940 450)	(1 000 000)

	Note	2016 R	2015 R
Conditions still to be met - remain liabilities		109 550	-

17,2 Financial Management Grant (FMG)

	2016	2015
Balance unspent at beginning of year	-	-
Current year receipts	1 600 000	1 600 000
Conditions met - transferred to revenue	(1 600 000)	(1 600 000)
Conditions still to be met - remain liabilities	-	-

17,3 Municipal Infrastrusture Grant (MIG)

	2016	2015
Balance unspent at beginning of year	-	5 482 793
Current year receipts	17 955 000	14 246 471
Conditions met - transferred to revenue	(17 955 000)	(19 729 264)
Conditions still to be met - remain liabilities	-	-

17,4 Municipal Systems Improvement Grant (MSIG)

	2016	2015
Balance unspent at beginning of year	-	2 450
Current year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(936 450)
Conditions still to be met - remain liabilities	-	-

17,5 Neighbourhood Development Partnership Grant (NDPG)

	2016	2015
Balance unspent at beginning of year	-	-
Current year receipts	-	14 500 000
Conditions met - transferred to revenue	-	(14 500 000)
Conditions still to be met - remain liabilities	-	-

17,6 Other Government Grants And Subsidies

	2016	2015
Balance unspent at beginning of year	2 365 924	13 352 153
Current year receipts	30 677 000	14 258 529
Conditions met - transferred to revenue	(17 552 597)	(25 244 758)
Conditions still to be met - remain liabilities	15 490 327	2 365 924

18 BORROWINGS

	2016	2015
Other borrowings	7 753 961	9 685 257
Non - current borrowings	7 753 961	9 685 257
Current portion transferred to current liabilities	896 328	1 387 117
Other borrowings	896 328	1 387 117
Total borrowings	8 650 289	11 072 374

Refer to Appendix A for more detail on borrowings.

19 FINANCE LEASE LIABILITY

2016 **Amounts payable under finance leases**	**Minimum lease payment R**	**Future finance charges R**	**Present value of minimum lease payments R**
Within one year	4 811 345	1 403 401	3 407 944
Within two to five years	8 804 098	1 344 172	7 459 926
	13 615 443	2 747 573	10 867 870
Less: Amount due for settlement within 12 months (current portion)			(3 407 944)
			7 459 926

2015 **Amounts payable under finance leases**	**Minimum lease payment R**	**Future finance charges R**	**Present value of minimum lease payments R**
Within one year	4 027 659	1 477 583	2 550 076

	Note	2016 R	2015 R
Within two to five years	11 069 258	2 077 969	8 991 289
	15 096 916	3 555 552	11 541 365
Less: Amount due for settlement within 12 months (current portion)			(2 550 076)
			8 991 289

20 OTHER FINANCIAL LIABILITIES

20,1 OTHER NON-CURRENT FINANCIAL LIABILITIES

	2016	2015
Other non-current financial liabilities	-	-

20,2 OTHER CURRENT FINANCIAL LIABILITIES

	2016	2015
Other current financial liabilities	152 547	733 660

21 PROPERTY RATES

	2016	2015
Actual		
Residential	-	-
Commercial	95 832 108	94 662 103
Light Industries	-	-
Heavy Industries	-	-
State	-	-
Property rates - income forgone	(30 351 985)	(31 739 602)
Total property rates	**65 480 124**	**62 922 501**
Property rates - penalties imposed and collection charges	10 058 948	9 242 403
Total	75 539 072	72 164 904

	2016	2015
Valuations		
Agriculture	646 114 000	657 264 000
Agricultural smallholding	115 662 000	115 662 000
Commercial	454 677 000	456 067 000
Communal property association	203 497 000	210 737 000
Industrial	404 630 000	391 305 000
Institutional	20 442 000	20 442 000
Municipal	176 655 400	178 935 400
Conservation - NEMA	10 000 000	10 000 000
Public benefit organisation	830 000	830 000
Public service infrastructure	40 662 000	40 662 000
Recreational club	1 751 000	1 751 000
Residential	1 766 675 500	1 750 146 500
Informal residential	21 938 000	21 938 000
Residential hospitality	27 225 000	27 225 000
Sectional title - commercial	12 765 000	12 765 000
Sectional title - residential	75 510 000	75 510 000
Sectional title - residential hospitality	2 450 000	2 450 000
State owned	843 864 000	843 864 000
Place of worship	69 003 000	69 003 000
Total Property Valuations	**4 894 350 900**	**4 886 556 900**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013.

Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis and are payable on the first of each month. Interest at 1.5% per month (2014: 1.5% per month) and a collection fee of 10% per annum (2014: 10% per annum), is levied on rates outstanding two months after due date.

The new general valuation will be implemented on 01 July 2017.

22 SERVICE CHARGES

	2016	2015
Sale of electricity	193 677 024	172 208 017
Refuse removal	6 933 009	6 627 755
Total Service Charges	200 610 033	178 835 772

Distribution losses

During the year, the municipality had distribution losses of 5.8% amounting to R11 044 639 (6.2% in 2014/15 amounting to R10 062 975)

23 RENTAL OF FACILITIES AND EQUIPMENT

	Note	2016 R	2015 R
Rental of facilities		459 799	330 321
Rental of equipment		-	-
Other rentals		-	-
Total rentals		459 799	330 321

24 INTEREST EARNED - EXTERNAL INVESTMENTS

Bank	548 798	2 103 518
Total interest	548 798	2 103 518

25 INTEREST EARNED - OUTSTANDING RECEIVABLES

Interest on Sundry Loans	47 469	46 599
Late Payments	593 858	423 203
Total interest	641 327	469 801

26 GOVERNMENT GRANTS AND SUBSIDIES

Equitable Share	50 138 000	40 230 450
Expanded Public Works Programme Grant (EPWP)	940 450	1 000 000
Financial Management Grant (FMG)	1 600 000	1 600 000
Municipal Infrastrusture Grant (MIG)	17 955 000	19 729 264
Municipal Systems Improvement Grant (MSIG)	930 000	936 450
Neighbourhood Development Partnership Grant (NDPG)	-	14 500 000
Other Government Grants And Subsidies	17 571 960	25 244 758
Total Government Grant and Subsidies	89 135 410	103 240 922

27 OTHER INCOME

27,1 Other Income

Other income	2 957 081	3 634 866
Total Other Income	2 957 081	3 634 866

28 EMPLOYEE RELATED COSTS

Employee related costs - Salaries and Wages	55 533 906	51 699 855
Employee related costs - Contributions for UIF, pensions and medical aids	11 566 588	12 804 671
Travel, motor car, accommodation, subsistence and other allowances	-	-
Housing benefits and allowances	4 622 722	2 875 280
Overtime payments	5 091 980	3 519 273
Performance and other bonuses	5 179 051	4 148 603
Long-service awards	-	746 813
Other employee related costs	469 291	1 061 818
Total	82 463 538	76 856 313

Remuneration of Ms PN Njoko - Municipal Manager

Annual remuneration	-	926 222
Other Company Contribution - UIF	-	1 636
Substistance Allowance	-	4 400
Leave pay	-	27 802
	-	960 060

Remuneration of Mr MJ Zulu - Chief Financial Officer

Annual remuneration	762 648	630 000
Other Company Contribution - UIF	1 785	1 785
Travel allowance	188 537	192 000
Telephone Allowance	4 369	26 215
Substistance Allowance	34 131	44 140
	991 470	894 140

Remuneration of Mr HB Chotoo - Director Corporate Services

Annual remuneration	633 071	1 162 043
Other Company Contribution - UIF	1 785	1 785
Travel allowance	329 864	9 256
Substistance Allowance	15 426	71 990
	980 146	1 245 074

Remuneration of Mr EH Dladla - Director Planning, Economic & Social Services

	Note	2016	2015
		R	R
Annual remuneration		618 746	616 281
Other Company Contribution - UIF		1 785	1 785
Travel allowance		172 750	172 750
Telephone Allowance		18 018	31 050
Substistance Allowance		25 669	15 399
Housing Subsidy		86 665	86 665
Acting allowance (Municipal Manager)		139 576	-
Bonuses		48 684	42 606
		1 111 893	966 536

Remuneration of Mr PPS Zamisa - Director Civil Services

	2016	2015
Annual remuneration	-	303 666
Other Company Contribution - UIF	-	-
Travel allowance	-	-
Telephone Allowance	-	-
Housing Subsidy	-	-
Leave pay	-	-
	-	303 666

29 REMUNERATION OF COUNCILLORS

	2016	2015
Mayor	494 356	468 584
Deputy Mayor	380 459	359 841
Speaker	395 485	374 867
Councillors	1 959 473	1 848 558
Councillor's pension and medical aid contributions	507 098	479 802
Executive committee members	204 892	193 291
Councillors allowances	1 920 918	1 776 520
Total Councillors' Remuneration	5 862 680	5 501 463

In-kind Benefits

The Mayor, Deputy Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

The Mayor had use of the Council owned vehicle for official duties. Also, the Mayor had bodyguards during the financial year.

30 DEPRECIATION AND AMORTISATION EXPENSE

	2016	2015
Property, plant and equipment	40 642 026	47 449 499
Intangible assets	122 047	223 682
Total Depreciation and Amortisation	40 764 073	47 673 181

31 FINANCE COSTS

	2016	2015
Borrowings	4 963 611	6 254 966
Bank overdrafts	36 559	4 034
Total Finance Costs	5 000 171	6 259 000

32 BULK PURCHASES

	2016	2015
Electricity	149 593 327	143 811 396
Total Bulk Purchases	149 593 327	143 811 396

33 CONTRACTED SERVICES

	2016	2015
Contracted services for:		
Information technology services	627 476	1 034 085
Monitoring consulting services	2 529 901	6 401 790
Specialist services	402 725	716 965
Legal advisory services	869 992	209 571
	4 460 280	8 362 411

34 GRANTS AND SUBSIDIES PAID

	2016	2015
Grants & Subsidies Paid	8 997 501	6 921 404
	8 997 501	6 921 404

	Note	2016 R	2015 R

35 GENERAL EXPENSES

Included in general expenses are the following:-

	2016 R	2015 R
Advertising	173 403	140 903
Audit fees	3 038 117	1 485 624
Bank charges	419 310	395 352
Bursaries	1 724 747	404 254
Cleaning	482 060	211 440
Consumables	597 052	1 037 423
Debt collection commission	4 710 473	2 015 735
Entertainment	46 781	163 529
Fuel and oil	3 958 979	4 627 279
Insurance	780 169	941 453
Licence fees - vehicles	251 918	321 354
Membership fees	44 773	456 524
Postage	384 586	432 674
Printing and stationery	540 703	479 051
Rental of buildings	28 559	-
Rental of office equipment	2 871 457	1 578 857
Other rentals	320 429	459 798
Security costs	13 389 781	10 002 240
Skills development levies	732 536	661 723
Telephone cost	2 380 896	1 863 268
Training	276 521	172 244
Travel and subsistence	1 210 819	1 187 875
Uniforms & overalls	983 109	837 526
Valuation costs	181 500	216 515
Water and Sanitation	990 809	999 752
Other	8 779 901	8 824 132
	49 299 388	39 916 523

36 GAIN / (LOSS) ON SALE OF ASSETS

	2016 R	2015 R
Property, plant and equipment	-	(97 586)
Total Gain / (Loss) on Sale of Assets	-	(97 586)

37 CASH GENERATED BY OPERATIONS

	2016 R	2015 R
Surplus/(deficit) for the year	13 063 938	(7 125 604)
Adjustment for:-		
Depreciation and amortisation	40 764 073	47 673 181
(Gain) / loss on sale of assets	-	97 586
Contribution to provisions - non-current		
Contribution to provisions - current		
Finance costs	5 000 171	6 259 000
Fair value adjustments	2 198 000	944 000
Other non-cash item		
Operating surplus before working capital changes:	61 026 182	47 848 163
(Increase)/decrease in inventories	319 960	
(Increase)/decrease in trade receivables	848 989	
(Increase)/decrease in other receivables	(15 124 302)	
(Increase)/decrease in VAT receivable	1 119 219	
Increase/(decrease) in conditional grants and receipts	13 233 954	
Increase/(decrease) in trade payables	(12 566 439)	
Increase/(decrease) in consumer deposits	(273 728)	
Other asset		
Other liability		
Cash generated by/(utilised in) operations	48 583 835	47 848 163

38 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following:

	2016 R	2015 R
Bank balances and cash	11 885 746	8 122 498
Bank overdrafts	-	-
Net cash and cash equivalents (net of bank overdrafts)	11 885 746	8 122 498

39 CORRECTION OF ERROR

	Note	2016 R	2015 R

During the year ended 30 June 2015 and previous years, PPE and other assets were incorrectly recognised: -

The comparative amount has been restated as follows:

Depreciation			586 437
Net effect on surplus/(deficit) for the year		-	586 437
PPE			586 437
Net effect on Statement of Financial Position		-	586 437
Net effect on Accumulated surplus opening balance		586 437	586 437

40 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

40,1 Unauthorised expenditure

Reconciliation of unauthorised expenditure

		2016	2015
Opening balance		27 857 138	2 180 574
Unauthorised expenditure current year		-	25 676 564
Approved by Council		-	-
Transfer to receivables for recovery		-	-
Unauthorised expenditure awaiting authorisation		27 857 138	27 857 138

40,2 Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

		2016	2015
Opening balance -		29 474 049	29 474 049
Fruitless and wasteful expenditure current year		593 858	-
Written off by Council		-	-
To be recovered		-	-
Fruitless and wasteful expenditure awaiting write off		30 067 907	29 474 049

Incident	Disciplinary steps/criminal proceedings	2016	2015
Interest on overdue accounts		593 858	-

40,3 Irregular expenditure

Reconciliation of irregular expenditure

		2016	2015
Opening balance		3 015 781	3 015 781
Irregular expenditure - current year		8 716 450	1 840 267
Irregular expenditure - previous years		45 927 097	-
Written off by Council		-	(1 840 267)
Transfer to receivables for recovery		-	-
Irregular expenditure awaiting write off		57 659 328	3 015 781

Incident	Disciplinary steps/criminal proceedings	2016	2015
Non-adherence to Supply Chain Management prescripts		54 643 547	1 840 267

41 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

41,1 Audit fees

		2016	2015
Opening balance		-	-
Current year audit fee		3 038 117	1 485 624
Amount paid - current year		(3 038 117)	(1 485 624)
Amount paid - previous years			
Balance unpaid (included in payables)		-	-

41,2 VAT

	Note	2016 R	2015 R

VAT input receivables and VAT output payables are shown in note 15. All VAT returns have been submitted by the due date throughout the year.

41,3 PAYE and UIF

	2016 R	2015 R
Opening balance	1 077 629	-
Current year payroll deductions	9 770 491	8 518 090
Amount paid - current year	(8 949 487)	(7 440 461)
Amount paid - previous years	(1 077 629)	-
Balance unpaid (included in payables)	**821 004**	**1 077 629**

The balance represents PAYE and UIF deducted from the June 2016 payroll. These amounts were paid during July 2016

41,4 Pension and Medical Aid Deductions

	2016 R	2015 R
Opening balance	1 284 667	-
Current year payroll deductions and Council Contributions	16 265 881	11 221 591
Amount paid - current year	(14 910 371)	(9 936 924)
Amount paid - previous years	(1 284 667)	-
Balance unpaid (included in payables)	**1 355 510**	**1 284 667**

The balance represents pension and medical aid contributions deducted from employees in the June 2016 payroll as well as Council's contributions to pension and medical aid funds. These amounts were paid during July 2016.

42 CAPITAL COMMITMENTS

42,1 Commitments in respect of capital expenditure

	2016 R	2015 R
- Approved and contracted for	**9 730 450**	**7 686 740**
Property, plant and equipment	9 730 450	7 686 740
- Approved but not yet contracted for	**43 108 292**	**16 906 000**
Property, plant and equipment	43 108 292	16 906 000
Total	52 838 742	24 592 740

This expenditure will be financed from:

	2016 R	2015 R
- Government Grants	52 838 742	24 592 740
	52 838 742	**24 592 740**

42,2 Operating leases

At the reporting date the municipality has outstanding commitments under operating leases which fall due as follows:

Operating leases - lessee

	2016 R	2015 R
Within one year	2 213 036	1 937 085
In the second to fifth year inclusive	-	1 440 204
After five years	-	-
Total	**2 213 036**	**3 377 289**

Operating Leases consists of the following:

Operating lease payments represent rentals payable by the municipality for certain of its vehicles. Leases are negotiated for an average term of three years.

43 EMPLOYEE BENEFITS

Defined benefit plan

Post retirement benefit plan

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All councillors belong to the pension fund for municipal councillors.

Employees belong to a variety of approved pension and provident funds.

These funds are governed by the Pension Funds Act of 1956 and include both defined benefit and defined contribution

	Note	2016 R	2015 R

schemes. All of these funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:
(i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
(ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
(iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer. The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors or employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the muncipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2016 by One Pangaea Financial. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Long service awards

According to the rules of the long service awards scheme, which the municipality instituted and operates, an employee (who is on the current conditions service), is entitled to a cash allowances calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service.

	2016 R	2015 R
Long service awards		
Present value of unfunded obligations	-	-
Present value of funded obligations	(20 276 000)	(17 618 000)
Total present value of obligations	(20 276 000)	(17 618 000)
Fair value of plan assets	-	-
Unrecognised past service costs	-	-
(Asset)/Liability for defined benefit obligations in the statement of financial position	(20 276 000)	(17 618 000)
Medical benefits		
Present value of unfunded obligations	-	-
Present value of funded obligations	(5 262 000)	(5 235 000)
Total present value of obligations	(5 262 000)	(5 235 000)
Fair value of plan assets	-	-
Unrecognised past service costs	-	-
(Asset)/Liability for defined benefit obligations in the statement of financial position	(5 262 000)	(5 235 000)
Changes in the present value of the defined benefit obligation are as follows:		
Opening Balance	**(17 618 000)**	**(16 766 000)**
Contributions by plan participants	(1 451 000)	(1 393 000)
Actuarial losses/(gains)	(2 433 000)	(562 000)
Benefits paid	1 226 000	1 103 000
Closing Balance	**(20 276 000)**	**(17 618 000)**
Changes in the present value of the medical aid obligation are as follows:		
Opening Balance	**(5 235 000)**	**(4 221 000)**
Current service costs	(581 000)	(490 000)
Interest costs	(379 000)	(352 000)
Actuarial losses/(gains)	235 000	(382 000)
Benefits paid	698 000	210 000
Closing Balance	**(5 262 000)**	**(5 235 000)**
Expenses and income recognised in surplus for the period		
Current service costs	(581 000)	(490 000)
Interest costs	(379 000)	(352 000)
Actuarial losses/(gains)	(2 198 000)	(944 000)
	(3 158 000)	**(1 786 000)**

	Note	2016 R	2015 R
Principal actuarial assumptions (Long service awards):			
Discount rate		8,89%	7,75%
CPI		6,56%	6,07%
Salary increase rate		7,56%	7,07%
Net Discount Rate		1,24%	0,64%
Mortality		SA85-90	SA85-90
Principal actuarial assumptions (Medical):			
Discount rate (D)		9,22%	8,53%
Consumer price inflation (C)		6,85%	6,27%
Health care cost inflation (H)		8,35%	7,77%
Net discount rate ((1+D)/(1+H)-1)		0,80%	0,71%

44 CONTINGENT LIABILITY

The municipality is defending cases whereby various companies have made claims that the municipality has not paid their invoices. The claims amount to R 7 008 367 and the outcome of the cases are not yet known.

45 RELATED PARTIES

Related Parties:	Relationship:
Accounting officer	*Significant influence*
Section 57 managers	*Significant influence*
Councillors	*Significant influence*

46 EVENTS AFTER THE REPORTING DATE

The Municipality was affected by the re-determination of bounaries in terms of section 21 of the local government:Municipal Demarcation Act,1988(Act No 27 of 1998) on 24 December 2015. The member of the Kwazulu-Natal Executive Council (MEC) responsible for the local government promulgated government Gazette No 1594 dated 28 January 2016, Notice in terms of section 14(5) of the Local Goverment: Municipal structures Act,1988 Transitional Measures to facilitate integrated Development Planning, approval of budgets, preparation of financial statements, levying of rates and acting appointments in municipalities affected by the aforementions re-determination.

"In terms of this notice, New Municipilities will be established and the former municipalities will be disestablished from the date the municipal elections"

Accordingly, from the date of the declaration of results of the elections by the Independent Electoral Commission established in terms of section 3 of the Electoral Commission Act,1996 (Act No 51 Of 1996), Umtshezi and Imbabazane Municipalities have been merged and their areas of jurisdiction, assets and liabilities, contracts, revenue and expenditure at carrying value have been transferred into the new municipality, Inkosi Langalibalele Municipality.

47 KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENTS

The following areas involve a significant degree of estimation uncertainty:

Useful lives and residual values of property, plant, and equipment
Recoverable amounts of property, plant and equipment
Provision for rehabilitation of landfill sites (discount rate used, number of years, amount of cash flows)
Present value of defined benefit obligation
Provision for doubtful debts
Impairment of assets
Provision for long-term service award
Other

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Impairment of assets
Provisions
Other

48 RISK MANAGEMENT

48,1 Maximum credit risk exposure

	Note	2016 R	2015 R

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

	2016 R	2015 R
Bank accounts	11 885 746	8 122 498
Trade receivables from non exchange transactions	72 687 266	57 562 964
Receivables from exchange transactions	41 865 021	42 714 010

These balances represent the maximum exposure to credit risk.

48,2 Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.
Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

48,3 Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Umtshezi Local Municipality

Statement of Comparison of Budget and Actual Information

as at 30 June 2016

	2 016										
	Original Budget	**Budget Adjustments (i.t.o. s28 and s31 of the MFMA)**	**Final adjustments budget**	**Shifting of funds (i.t.o. s31 of the MFMA)**	**Virement (i.t.o. Council approved policy)**	**Final Budget**	**Actual Outcome**	**Unauthorised expenditure**	**Variance**	**Actual Outcome as % of Final Budget**	**Restated Audited Outcome**
	R	R	R	R	R	R	R	R	R	R	R
Financial Performance											
Property rates	68 455 000		68 455 000			68 455 000	75 539 072	-	7 084 072	10%	72 164 904
Service charges	202 355 000	1 311 000	203 666 000			203 666 000	200 610 033	-	-3 055 967	-2%	178 835 772
Investment revenue	3 494 000	(2 494 000)	1 000 000			1 000 000	1 649 924	-	649 924	65%	2 573 320
Transfers recognised - operational	58 152 000	(357 000)	57 795 000			57 795 000	89 135 410	-	31 340 410	54%	103 240 922
Other own revenue	16 500 000	(1 171 000)	15 329 000			15 329 000	10 115 201	-	-5 213 799	-34%	10 940 265
Total Revenue (excluding capital transfers and contributions)	**348 956 000**	**(2 711 000)**	**346 245 000**	**-**	**-**	**346 245 000**	**377 049 640**	**-**	**-30 804 640**	**109%**	**367 755 183**
Employee costs	79 739 000		79 739 000			79 739 000	82 463 538	-	2 724 538	3%	76 856 313
Remuneration of councillors	5 326 000		5 326 000			5 326 000	5 862 680	-	536 680	10%	5 501 463
Debt impairment	-	-	-		-	-	-	-	-	0%	16 755 536
Depreciation & asset impairment	44 436 000		44 436 000			44 436 000	40 764 073	-	-3 671 927	-8%	53 115 933
Finance charges	6 392 000		6 392 000			6 392 000	5 000 171	-	-1 391 829	-22%	6 259 000
Bulk purchases	175 202 000	(2 556 000)	172 646 000			172 646 000	149 593 327	-	-23 052 673	-13%	143 811 396
Transfers and grants	8 537 000		8 537 000			8 537 000	8 997 501	-	460 501	5%	6 921 404
Other expenditure	73 946 000	10 047 000	83 993 000			83 993 000	49 299 388	-	-34 693 612	-41%	65 659 743
Total Expenditure	**393 578 000**	**7 491 000**	**401 069 000**	**-**	**-**	**401 069 000**	**341 980 679**	**-**	**59 088 321**	**85%**	**374 880 787**
Surplus/(Deficit)	(44 622 000)	(10 202 000)	(54 824 000)	-	-	(54 824 000)	35 068 961	-	89 892 961	-164%	(7 125 604)
Transfers recognised - capital	33 055 000	2 000 000	35 055 000			35 055 000	34 955 000	-	-100 000	0%	
Contributions recognised - capital & contributed assets			-			-		-	-	0%	
Surplus/(Deficit) after capital transfers & contributions	(11 567 000)	(8 202 000)	(19 769 000)	-	-	(19 769 000)	70 023 961	-	89 792 961	-454%	
Share of surplus/ (deficit) of associate			-			-		-	-	0%	
Surplus/(Deficit) for the year	**(11 567 000)**	**(8 202 000)**	**(19 769 000)**	**-**	**-**	**(19 769 000)**	**70 023 961**	**-**	**89 792 961**	**-454%**	
Capital expenditure & funds sources											
Capital expenditure											
Transfers recognised - capital	33 055 000	2 317 000	35 372 000			35 372 000	34 955 000	-	-417 000	-1%	
Public contributions & donations			-			-	-	-	-	0%	
Borrowing			-			-	-	-	-	0%	
Internally generated funds	1 880 000	9 358 000	11 238 000			11 238 000		-	-11 238 000	-100%	
Total sources of capital funds	**34 935 000**	**11 675 000**	**46 610 000**	**-**	**-**	**46 610 000**	**34 955 000**	**-**			
Cash flows											
Net cash from (used) operating	33 894 000	(2 535 000)	31 359 000			31 359 000	44 677 235	-	13 318 235	42%	50 373 819
Net cash from (used) investing	(29 060 000)	-	(29 060 000)			(29 060 000)	(39 873 395)	-	-10 813 395	37%	(77 716 733)
Net cash from (used) financing	(6 067 000)	5 439 000	(628 000)			(628 000)	(2 604 791)	-	-1 976 791	315%	(3 531 952)
Cash/cash equivalents at the year end	**(1 233 000)**	**2 904 000**	**1 671 000**	**-**	**-**	**1 671 000**	**2 199 049**	**-**	**528 049**	**32%**	